

Message Text

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ACTION TRSE-00

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR ZINMAN

E. O. 11652: ADS, DECLAS 12/2/77
TAGS: EAID, EFIN
SUBJECT: ASIAN DEVELOPMENT FUND: PROCUREMENT AND DRAWDOWN ARRANGEMENTS

REF: (A) MANILA 18742, (B) MANILA 19428, (C) TREASURY 76-151

1. ON DECEMBER 16, ADB BOARD OF DIRECTORS DISCUSSED SUBJECT PROPOSAL. THERE WAS GENERAL AGREEMENT ON CONCEPT AND PRINCIPLES INVOLVED. IN VIEW QUESTIONS RAISED ON INTERPRETATION OF SEVERAL POINTS, BANK MANAGEMENT AGREED TO ISSUE REVISION OF ADB DOC. R122-76 WITH CLARIFICATIONS. FORMAL BOARD APPROVAL OF PROPOSAL WILL BE OBTAINED AT SUBSEQUENT MEETING.

2. CONSIDERABLE DISCUSSION EVOLVED WHEN POINT WAS MADE THAT ADF LOAN COMMITMENTS INCLUDE TIED CONTRIBUTIONS, AND QUESTION
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WAS RAISED AS TO EFFECT THIS WILL HAVE ON PROCUREMENT POLICY AND ELIGIBILITY UNDER NEW POLICY. MANAGEMENT EXPLAINED THAT, OF TIED CONTRIBUTIONS STILL OUTSTANDING UNDER FORMER MULTI-PURPOSE SPECIAL FUND (MPSF), AUSTRALIAN CONTRIBUTION HAS BEEN PRACTICALLY USED UP, WHILE CANADIAN CONTRIBUTION IS ALREADY IN EFFECT COMMITTED.

ESSENTIALLY, THIS LEAVES U.S. TIED FUNDS AS ONLY REMAINING UNUTILIZED. VICE PRESIDENT OBSERVED THAT POSSIBILITY OF RESTRICTED PROCUREMENT ELIGIBILITY ON SPECIFIC PROJECTS HAD BEEN CONSIDERED EARLIER, AT TIME WHEN MPSF WAS VERY MUCH TIED. HOWEVER, MANAGEMENT HAD DECIDED AGAINST SUCH A PROCEDURE AS NOT BEING IN BEST INTEREST OF DEVELOPING MEMBER COUNTRIES. VICE PRESIDENT ACKNOWLEDGED THAT WHILE IT WOULD BE DIFFICULT TO ENSURE RAPID UTILIZATION OF U.S. TIED FUNDS UNDER BASIC POLICY ON PROCUREMENT, HE BELIEVED IT WAS WORTH THE RISK ON ASSUMPTION THAT U.S. CONGRESS, IN ITS WISDOM, WILL CONTINUE TO PROVIDE UNITED CONCESSIONAL FUNDS AS IT DID WITH RECENT \$25 MILLION CONTRIBUTION.

3. SUBJECT OF "PARTIAL" CONTRIBUTIONS ALSO ELICITED QUESTIONS FROM BOARD, AGAIN AIMED AT EXPERIENCE WITH U.S. CONTRIBUTIONS. GENERAL COUNSEL EXPLAINED THAT, IF BY TIME CONTRIBUTIONS TO FIRST POOL HAVE BEEN HALF COMMITTED AGAINST PROCUREMENT CONTRACTS AND U.S. HAS BEEN UNABLE TO OBTAIN APPROPRIATION FOR SECOND HALF OF ITS \$50 MILLION CONTRIBUTION, THE U.S. WOULD CEASE TO BE ELIGIBLE FOR PROCUREMENT UNDER POOLING ARRANGEMENT. (HE NOTED, HOWEVER, THAT IT MIGHT BE A YEAR OR POSSIBLY A YEAR AND A HALF BEFORE THAT STAGE IS REACHED, AND IT WAS HOPED U.S. WILL HAVE COMPLETED ACTION BY THAT TIME.)

4. COMMENT: PARA. 2 OF REF B NOTED THAT FUNDS AVAILABLE TO BANK UNDER U.S. \$100 MILLION TIED CONTRIBUTION TO CONCESSIONAL FUNDS WOULD BE DRAWN DOWN TO FINANCE LIMITED OFFICIAL USE

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U.S. PROCUREMENT OF ITEMS CONTAINING MORE THAN 75 PERCENT U.S. CONTENT, WHILE UNITED POOLED FUNDS WOULD BE USED TO FINANCE U.S. PROCUREMENT OF ITEMS WITH LESS THAN 75 PERCENT U.S. CONTENT. HOWEVER, IF SITUATION MENTIONED PARA. 3 ABOVE WERE TO DEVELOP, U.S. WOULD STILL BE ELIGIBLE FOR PROCUREMENT TO EXTENT THERE WERE ANY REMAINING TIED FUNDS, BUT THIS WOULD REQUIRE THAT ITEMS WOULD HAVE TO CONTAIN 75 PERCENT OR MORE U.S. CONTENT AS STIPULATED IN U.S. CONTRIBUTION AGREEMENT.
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